

ILLINOIS POWER COMPANY  
ILLINOIS COMMERCE COMMISSION

DOCKET NO. 01-0432

REBUTTAL EXHIBITS SPONSORED BY MARK J. PETERS

OCTOBER 10, 2001

TABLE OF CONTENTS

<u>EXHIBIT</u> <u>NO.</u>	<u>TITLE</u>	<u>PAGE NO.</u>
11.1	PREPARED REBUTTAL TESTIMONY OF MARK J. PETERS .....	1-16
I.	INTRODUCTION AND WITNESS QUALIFICATIONS .....	1-2
II.	PURPOSE AND SCOPE.....	2-3
III.	RESPONSE TO ICC STAFF WITNESS HARDEN.....	3-6
IV.	RESPONSE TO ICC STAFF WITNESS SCHLAF AND MEC WITNESS PHILLIPS .....	7-11
V.	RESPONSE TO IIEC WITNESS STEPHENS.....	11-16

OFFICIAL FILE

ILL. C. C. DOCKET NO. 01-0432  
JP 11.1  
Witness \_\_\_\_\_  
Date 11-27-01 Reporter CB

**DOCKET NO. 01-0432**

**OCTOBER 10, 2001**

1. Q. Please state your name, business address and present position.

2. Q. Please summarize your educational and employment background.

A. I hold a Bachelors of Arts Degree in Liberal Arts and Science (Concentration in Economics) from the University of Illinois (1985). I began employment with Illinois Power in August 1985 as an Assistant Customer Service Supervisor in our Champaign-Urbana office. I was subsequently transferred to our Finance Department in Decatur, where I held the following positions - Senior Financial Analyst, Remittance Processing Coordinator, Supervisor - Remittance and Administration, Financial Specialist and Financial Associate. While in the role of Financial Specialist in our Cash Management section, I successfully obtained my Certified Cash Manager credential. In 1996, I was transferred to our Energy Supply group as an Electric System Power Coordinator. In that function, I was responsible for the trading of real-time, hour ahead energy. In 1998, I was promoted to the position of Scheduling Coordinator. In this position, in conjunction with other Scheduling Coordinators, I was responsible for the short-

23 term management of both IP's physical assets and our financial trading portfolio. I traded  
24 energy primarily through the bilateral, over the counter market for periods of one day through  
25 one month. In 1999, I was promoted to the position of Commodity Pricing Manager within our  
26 Customer Services organization. In that function, I was responsible for the economic analysis of  
27 retail contract proposals, both within Illinois Power's current territory as well as opportunities  
28 within other service territories in Illinois. I also analyzed tariffs, market conditions and customer  
29 usage behaviors to determine ways for Illinois Power to profitably meet the needs of our current  
30 and potential customers. In January 2000, I returned to our Energy Supply group in my current  
31 function of Control Area Resource Manager.

32 3. Q. What are your duties and responsibilities in your present position?

33 A. I am responsible for obtaining electric commodity for the Company to serve retail customers  
34 that either choose Illinois Power as their supplier or have IP as their supplier by default. My  
35 responsibilities also include securing transmission services necessary to serve these customers.  
36 In June 2001, assumed similar duties for gas procurement.

37 4. Q. Have you previously testified before the Commission?

38 A. Yes. I testified before this Commission in Docket Nos. 00-0259, 00-0395 & 00-0461 (cons.),  
39 the Company's Rider MVI filing.

## 40 II. Purpose and Scope

41 5. Q. What is the purpose of your rebuttal testimony in this proceeding?

42 A. I will respond to several issues relating to Interim Supply Service (Proposed Rider ISS) in the  
43 direct testimonies of ICC Staff witnesses Harden and Schlaf, MEC witness Phillips and IIEC  
44 witness Stephens.

45 **III. Response to ICC Witness Harden**

46 6. Q. Have you reviewed ICC witness Harden's testimony regarding Interim Supply Service (Rider  
47 ISS) for residential customers?

48 A. Yes. Ms. Harden recommends that "IP charge residential customers on Rider ISS the  
49 applicable bundled rate, plus a 10% adder that should be applied to the bundled rate energy  
50 and demand charges," instead of a price which is based upon the market price for power and  
51 energy that exists at the time they take this service.

52 7. Q. Do you agree with Ms. Harden's recommendation?

53 A. No. Ms. Harden has provided no analysis as to the potential impact of her proposal on Illinois  
54 Power or the customers that may end up on Rider ISS. Based on the 10% adder, a residential  
55 customer on Rider ISS would typically pay less than 10 cents per kWh for power, energy,  
56 delivery and transmission in the summer and even less in the winter. Ms. Harden's proposal  
57 completely insulates the residential customer who goes on Rider ISS from the market price of  
58 energy. For example, for the period from 1998 through May 2001, the lowest monthly average  
59 on-peak price for Rider DA-RTP (the rider currently used to set ISS pricing) was 1.97  
60 cents/kWh and the highest was 29.32 cents/kWh. Clearly, Ms. Harden's proposal is  
61 completely unrelated to the market price of energy. Because the charge to the customer is not  
62 related to market prices, both IP and the customer bear certain risks. There have been many

63 times in the past where market prices were below bundled rates. Therefore, parties should be  
64 concerned with the customer impact from such a scenario. However, IP is also concerned  
65 about possible exposure that would result from serving a customer at extremely high market  
66 prices. Exposure might occur if the customer lands on Rider ISS. The customer could land on  
67 Rider ISS as a consequence of actions or a default by a RES or by the customer, but not by IP.  
68 Serving a large group of residential customers for even one day (let alone for up to two months),  
69 during a market disruption (when market prices are much higher than 110% of bundled rates),  
70 could cost Illinois Power hundreds of thousands or even millions of dollars more than IP collects  
71 from customers.

72 8. Q. Can you please explain your understanding of the purpose of Rider ISS?

73 A. Yes. In the last DST case, although to my understanding not statutorily <sup>required</sup> to do so, ~~required~~, IP  
74 agreed to include in its tariff provisions for No-Fault Default Service (later changed to Interim  
75 Supply Service) as a temporary supply service for a delivery services customer who, through no  
76 fault of its own, loses its supply of power and energy from a RES. This service was intended to  
77 insulate the customer from the potential penalties associated with unauthorized use of  
78 transmission services if the customer's RES defaulted. In practice, however, customers have in  
79 effect viewed ISS service as a supply option. They have voluntarily chosen this service as an  
80 alternative to extending their RES contracts, to using off-cycle switching, or by simply failing to  
81 choose a supply option by the effective date of their RES's Termination DASR.  
82 IP is concerned about the risk of being required to provide supply to a customer on an  
83 unexpected basis. Of particular concern is the situation in which a RES suddenly ceases to

84 serve its enrolled customers - the situation No-Fault Default Service was originally intended to  
85 cover. It is more likely that a RES default will occur when market prices are high.

86 Furthermore, almost by definition, such a RES will default on service to all of its load obligation,  
87 not just one distinct customer, thereby dropping a large group of customers. This could place a  
88 significant demand upon IP to serve those customers.

89 9. Q. Do you have any other concerns with using bundled rates as a basis for residential ISS rates?

90 A. Yes, in addition to not reflecting current market prices, IP's bundled rates were set more than  
91 10 years ago to recover test year costs on an annual basis rather than for a short time period  
92 when Rider ISS would be in effect.

93 10. Q. Ms. Harden states that her 10% adder should provide sufficient incentive for residential

94 customers to make a prompt decision on which rate or alternate supplier they would like to  
95 switch to on a permanent basis. Do you agree?

96 A. Absolutely not. The 10% adder is only an incentive to make a prompt decision if the customer's  
97 alternatives cost less than 110% of base rates or the customer is willing to return to IP's base  
98 rates for the required period. IP customers often see more than 10% changes in their monthly  
99 bills. This can be due to either changes in usage (combined, in some months, with the impact of  
100 moving into a different season with higher or lower rates) or changes in gas prices for those  
101 customers also taking gas service from IP. Furthermore, as I understand Ms. Harden's  
102 proposal, the 10% adder would not apply to the Facilities Charge, meaning that the total  
103 increase on the customer's bill would be less than 10%. A customer that would receive a bill  
104 for approximately \$100 on bundled service would not be highly motivated to make a quick

105 decision if the incremental cost was less than \$10. Under IP's proposal, customers always have  
106 an incentive to make a decision and move off Rider ISS as quickly as possible.

107 11. Q. Does IP's actual experience with non-residential customers on ISS to date provide any insight  
108 into whether customers would view the current pricing structure as a disincentive?

109 A. Yes. Based on IP's actual experience, it may well be the RESs themselves who place the  
110 customers on ISS, thereby utilizing the rate as a supply alternative to making purchases  
111 themselves at current market prices, or to free up supply (which otherwise would have been  
112 delivered to the customer) for sale into the current market. Should IP be required to offer ISS  
113 to residential customers with only a 10% mark-up to base tariffs, the Company would in effect  
114 be providing every residential customer and its RES a free call option with a strike price well  
115 below 10 cents/kwh. Rather than providing a disincentive to customers to use or stay on ISS,  
116 this would in fact encourage customers and RESs to utilize this service whenever the current  
117 market prices were to exceed 110% of base rates.

118 12. Q. What is Ms. Harden's response to IP's proposal to spread potentially large Rider ISS bills over  
119 several months?

120 A. She correctly states that this only postpones the customer from paying the high bill. However,  
121 spreading payments over several months is frequently used in other contexts such as deferred  
122 payment agreements and levelized payment plans. The Company's proposal would reduce the  
123 impacts on residential customers of large monthly bills that could occur on Rider ISS under  
124 certain circumstances and thereby make it less likely that customers will be afraid to return to  
125 the market.

**IV. Response to ICC Witness Schlaf and MEC Witness Phillips**

13. Q. What issue raised by Staff witness Dr. Schlaf and MEC witness Mr. Phillips will you address?

A. They both presented testimony concerning the ability of a customer that falls onto Rider ISS to return to its previous supplier (RES).

14. Q. Dr. Schlaf recommends deletion of Section 6(a) of Rider ISS that prohibits a customer that received service on Rider ISS immediately following the termination of service from a RES, to resume service with that same RES for one year. Do you agree with Dr. Schlaf?

A. No, I do not. Dr. Schlaf has accurately identified IP's concern that a supplier may attempt to intentionally or to unintentionally use Rider ISS as a normal and customary supply resource. He agrees that ISS should not be used in this way, but states that a better solution could be found. Dr. Schlaf states that a provision could be added to SC 150 stating that suppliers should not do this, but he does not offer any suggestions that would actually prevent or at least discourage customers and their agents from doing this. Simply adding a provision in the tariff that suppliers should not use Rider ISS as a supply option to place their customers on will have very little impact unless there is also a mechanism to monitor and enforce compliance, including sanctions.

15. Q. Did Mr. Phillips also oppose the prohibition on a customer that received service on Rider ISS immediately following the termination of service from a RES, resuming service with that same RES for one year?

A. Yes, he did. While Dr. Schlaf at least acknowledges the possibility of potential gaming of Rider ISS, Mr. Phillips claims gaming is unlikely. Mr. Phillips claims that the only way a RES could "game" the system is if the ISS rate were lower than the market price that the RES would pay



147 for energy. He then states this is unlikely to happen “because the RES will be purchasing energy  
148 at market price and the present ISS is based on a forward looking market price plus 10% and  
149 is recalculated every other month.”

150 16. Q. Is Mr. Phillips correct?

151 A. No. First of all, he does not seem to understand Rider ISS. He appears to confuse Rider ISS  
152 (which is based on day ahead real time prices) and Rider MVI (with prices which are  
153 recalculated every other month). Further, there is no evidence presented by Mr. Phillips that  
154 RESs have purchased or will actually purchase power and energy at the same market prices  
155 utilized in Rider ISS.

156 Gaming opportunities arise if the RES is provided the flexibility to utilize ISS to fulfill its supply  
157 obligation to the customer while it takes the supply that it otherwise would have delivered to the  
158 customer and sells it into the current market. While gaming opportunities would decrease  
159 (though not be eliminated) if IP’s ISS charges were implemented as IP proposes, other parties  
160 have argued that these charges should be lowered. In particular, Ms. Harden suggests that ISS  
161 for residential customers be based on bundled tariffs plus 10%, and Mr. Stephens suggests that  
162 certain charges in proposed Rider ISS be eliminated.

163 17. Q. Do you have any other comments concerning customers on Rider ISS being able to return  
164 immediately to the RES that was previously serving them?

165 A. Yes. Mr. Phillips presents an example in his testimony that illustrates why a customer who has  
166 left a RES and has been served on Rider ISS would want to return to the same RES. In this  
167 example, Mr. Phillips suggests that a customer who has failed to complete renegotiations with a

168 RES prior to the termination of their existing contract has no other choice than service on Rider  
169 ISS while they finish the negotiations. This is simply not true. The customer and its existing  
170 RES could agree to an interim agreement while they complete negotiations. Additionally, the  
171 customer has the option to obtain service from any other qualified RES for this same bridge  
172 period. Also, the customer has the option of taking service under IP's bundled tariffs or Rider  
173 PPO (if eligible) for the required period. But in no instance are they left with no option other  
174 than ISS. Moreover, there is absolutely no reason why IP should be expected to supply a  
175 customer while the customer and RES continue negotiations - Mr. Phillips' example in fact  
176 illustrates an abuse of the intended purposes of ISS.

177 The fact that the customer has signed an agreement with the RES, which includes the date that  
178 the agreement terminates, clearly indicates that the customer has sufficient foreknowledge of  
179 when it must make a decision. At some point, customers should be responsible for managing  
180 their own affairs and bearing the costs of their decisions. In effect, Mr. Phillips suggests that IP  
181 bear the supply risk resulting from the inability of the customer and the RES to reach an  
182 agreement. Rider ISS was clearly never intended to be used as an account management tool  
183 for suppliers.

184 18. Q. Please explain the gaming opportunities that exist if Rider ISS is underpriced and customers are  
185 able to return to the same RES directly from service on Rider ISS.

186 A. As I discussed above, utilizing base rates plus an adder represents nothing more than a fixed  
187 price call option for the customer (and/or its RES) for which IP is not compensated.

188 Customers, through their agents and suppliers, knowing that this fixed price tariff was available,

189 would reasonably be expected to utilize this service to their benefit - especially if the RES knew  
190 that it could immediately reenroll the customer following ISS service. The RES could utilize ISS  
191 service as an alternate supply option, and place its customers' loads on ISS during any near  
192 term period when this fixed price option was less than the RES' market opportunity cost.

193 19. Q. How would IP's exposure to price and reliability risk increase as a result of these  
194 practices?

195 A. If RES's were able to manage their relationship with load that they have aggregated using a  
196 liberal ISS as described above, the likelihood of customers being placed on this service would  
197 increase dramatically, even for those served by creditworthy suppliers. As I have described it  
198 above, Rider ISS would now become a fixed price call option and it would only be prudent for  
199 IP to manage its exposure as such. IP would be faced with either having to secure additional  
200 capacity (for which it is not compensated) to meet this now probable load increase, or, in the  
201 alternative, run the risk of having large amounts of load returned to it without sufficient  
202 transmission resources or capacity available to serve it.

203 20. Q. Are there any other consequences that may exist if Rider ISS is susceptible to these practices?

204 A. Yes. Once the likelihood of serving load on Rider ISS due to these gaming opportunities were  
205 to increase to the point that IP's risk of incurring unauthorized use penalties was unacceptable, I  
206 would expect the Company to hedge this risk through the reservation of sufficient, additional  
207 Transmission Service to meet this potential load obligation. This would remove transmission  
208 transfer capacity from the market, potentially precluding other market participants from securing  
209 transmission service on desirable paths that best suit their needs. This could have the effect of

harming the development of the competitive market.

**V. Response to IIEC Witness Stephens**

21. Q. What issues does Mr. Stephens raise concerning Rider ISS?

A. Mr. Stephens objects to what he refers to as the "markups" included in Rider DA-RTP and the use of Firm Point-to-Point billing determinants for billing the portion of the service relating to transmission.

22. Q. What are the "markups" contained in DA-RTP that would apply to Rider ISS?

A. ISS (No-Fault Default Service), as approved by the Commission in the 1999 DST case, includes a 10% adder on the price of energy as well as the Recovery Factor of 0.90 cents per kWh in Section 5(c) of Rider DA-RTP.

23. Q. Mr. Stephens generally agrees that the use of hourly real-time prices is appropriate for a Rider ISS type service. However, he believes that the only "markup" IP should be allowed to charge for are real administrative costs. Do you agree?

A. I agree that administrative costs should be part of the costs recovered by the charges for this service. However, Illinois Power faces more than just a spot market price risk (i.e., the risk that would be covered by the Rider DA-RTP hourly price) from customers taking Rider ISS. Rider ISS is unique in that a customer under certain default scenarios may actually receive Rider ISS service from IP for up to three days prior to the Company even being aware that the default occurred and that the customer is on Rider ISS. Under the requirements of the OATT of both Illinois Power and, it is anticipated, the ARTO, IP is required both to secure transmission service and properly schedule transmission service for all delivery services customers receiving

231 supply from IP. If IP is not even aware that it is serving a given customer, IP is not able to  
232 properly schedule transmission service for this customer's load; and the Company will be  
233 subject to energy imbalance provisions at a minimum as well as, potentially, substantial penalty  
234 charges for unauthorized use of transmission services. These charges could be equal to two  
235 times the monthly charge for transmission service, even though the period in which IP was  
236 unaware it was serving the customer was only three days. Should these three days span the end  
237 of a month and the start of the next month, the charge could be two times the monthly rate for  
238 each of the two months.

239 Under Rider DA-RTP, customers must commit to a minimum of a one-year contract and IP is  
240 only serving (at RTP rates) the amount of energy above the Customer Baseline Load. The  
241 Rider DA-RTP price may include capacity charges only if IP is purchasing capacity for this  
242 additional amount, whereas charges under the base tariff provide for compensation to IP for this  
243 component. Under Rider ISS, the customer's entire load may be served, and as such, IP  
244 would not be properly compensated for holding capacity for the customer if it could charge only  
245 the hourly DA-RTP price.

246 Clearly, the Company could justify pricing Rider ISS at a premium to Rider DA-RTP since the  
247 service is very short term in nature, is a no-notice service that can begin up to three days prior  
248 to IP being notified, and covers a customer's entire load, not just the portion above the  
249 Baseline. Nonetheless, the Company is only requesting the same pricing as in DA-RTP.

250 24. Q. Earlier in your testimony, you stated that Rider ISS was originally intended to be a temporary  
251 supply service for a delivery customer who, through no fault of its own, lost its supply of power

252 and energy from a RES. You stated that Rider ISS has evolved to provide service in  
253 circumstances where a customer doesn't have a supply source for any reason, including  
254 neglecting to choose a new supply option upon scheduled termination of a supply contract  
255 agreed upon between the customer and its supplier. Do you have any examples of this  
256 occurring?

257 A. Yes. Earlier this year, a supplier that was serving a group of customers submitted Termination  
258 DASRs for a portion of the group. Additionally, this RES as agent for the customers, submitted  
259 PPO enrollment requests for those eligible accounts. Not all of the PPO enrollments were  
260 received in sufficient time to coincide with the effective dates of the Termination DASRs that  
261 were submitted for the customers. Several accounts were subsequently served on ISS from the  
262 actual effective date of their Termination DASR to the date they were eligible to receive service  
263 under Rider PPO. To avoid taking service under ISS, the customers and their RES could have  
264 amended their existing contracts, or entered into an interim contract, to run through the  
265 scheduled meter read dates, or off-cycled switched on the date Rider PPO was available to  
266 each customer. Obviously, the RES and/or the customers felt that ISS was an acceptable and  
267 efficient option to bridge this gap even though such use is inconsistent with the intended purpose  
268 of ISS.

269 In fact, not a single customer of the more than 20 who have taken service under ISS has done  
270 so as a result of their RES going out of business, losing their certificate of service authority,  
271 losing its eligibility as a transmission service customer, notifying IP of its refusal to serve the  
272 customer despite a contractual obligation to do so, being denied transmission service under the

OATT for non-compliance, through disconnection from the transmission system due to non-compliance or IP terminates service to the RES pursuant to S.C. 150. (These are the examples listed in Rider ISS of situations in which it would be available.) Each and every customer who has been served on ISS has done so following the termination of PPO service or termination of service from a RES who had submitted a timely Termination DASR. These facts clearly demonstrate that the service is not overpriced in relationship to the other options available to the customers in the marketplace. Quite to the contrary, it would suggest that the service as it exists today is acceptable to customers and in fact is underpriced to the point of being considered an acceptable supply option.

25. Q. What would happen if Mr. Stephens' recommendation to exclude the additional charges in Rider ISS was accepted?

A. Given that customers are already utilizing the service in the manner described above, one could only expect an increase in this behavior if the price were reduced. A rate which was voluntarily offered by IP to insulate the customer from the risk of penalties for the unauthorized use of transmission service when they lost their RES supply through no fault of their own, would be reduced to nothing more than an indexed-based supply option for every RES and customer.

26. Q. Mr. Stephens also argues that transmission services under Rider ISS should be priced based on Network Integration Transmission Service (NITS) rather than Firm Point-to-Point. Do you agree?

A. No. The use of Point-to-Point billing determinants reflects the nature of the service being provided under Rider ISS and the alternate costs the customer would most likely face were it to

294 try to obtain this service itself in the open market. Under Rider ISS, IP suddenly and  
295 unexpectedly becomes the customer's power supplier and TSA, and must schedule  
296 transmission service for a short but unknown period, which could be 1 or 2 to 60 days,  
297 depending on how soon the customer moves to another supply option. Since the Rider ISS  
298 customer is unplanned load, IP may have to contract for a specific, short-term source of supply  
299 to serve it. Under these circumstances, Point-to-Point billing determinants are a much better  
300 representation of the short-term and uncertain nature of Rider ISS than are NITS billing  
301 determinants.

302 NITS is normally an annual service, which is paid for monthly based on the customer's load at  
303 the time of system peak, and involves a detailed, previously established Network Operating  
304 Agreement. On the other hand, Point-to-Point service is available and can be charged on a  
305 daily basis with substantially less administrative requirements on the customer's part. Point-to-  
306 Point service is much more applicable to the short-term nature of the supply service provided  
307 under Rider ISS.

308 Furthermore, given the short-term and uncertain nature of ISS, NITS billing determinants may  
309 provide significantly different costs to otherwise similar customers. Take two customers with  
310 identical usage in both amount and profile. One is on Rider ISS for 30 days from July 1 - July  
311 30, before returning to bundled service. The other is on Rider ISS for two days from July 31 -  
312 August 1 and then returns to bundled service. If NITS were being used as the basis for pricing  
313 transmission under Rider ISS, and the system peaks for July and August were to occur on July  
314 31 and August 1, respectively, then the first customer would be charged zero for its 30 days of



315 transmission usage because it was not on Rider ISS at the time of system peak. The second  
316 customer would pay the full monthly share for both July and August for only two days service  
317 under NITS since it was on Rider ISS at the time of each month's peak. If the customer was  
318 served by a RES in July and returned to bundled service on August 2<sup>nd</sup>, it is quite possible that it  
319 would also pay the RES for a share of its transmission service in July and the transmission costs  
320 embedded in IP's bundled rates in August. Under Point-to-Point billing determinants, in  
321 contrast, each customer would be billed for transmission service based on the number of days  
322 on Rider ISS.

323 27. Q. Does this conclude your prepared rebuttal testimony?

324 A. Yes, it does.